MONTANA

DRINKING WATER STATE REVOLVING FUND

ANNUAL REPORT

FOR STATE FISCAL YEAR 2005
(JULY 1, 2004 THROUGH JUNE 30, 2005)

Prepared by

Montana Department of Environmental Quality
and
Department of Natural Resources and Conservation

for
EPA Region VIII
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MONTANA
DRINKING WATER STATE REVOLVING FUND (DWSRF)
ANNUAL REPORT
STATE FISCAL YEAR (SFY) 2005

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I. INTRODUCTION

This Annual report adheres to the Operating Agreement negotiated between the State of Montana and the Environmental Protection Agency (EPA) concerning the administration of the Drinking Water State Revolving Fund (DWSRF). The annual report summarizes DWSRF activities for the state fiscal period beginning July 1, 2004 and ending June 30, 2005 (SFY05).

The DWSRF program was established as a result of the 1996 Amendments to the Federal Safe Drinking Water Act, which provided the authority for EPA to make capitalization grants to states. The grants, in conjunction with state matching funds, are used to provide financial assistance for the construction of drinking water projects and to support administration of the state program.

In anticipation of the 1996 Amendments to the Federal Act, the 1995 State Legislature, under Title 75, Chapter 6, Part 2, Montana Code Annotated, passed the enabling legislation, entitled the Safe Drinking Water Treatment Revolving Fund Act, giving authority to the Montana Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC) to adopt administrative rules to implement the program. Legislation also provided the ability to generate state match funds, through the sale of state General Obligation Bonds (GO Bond Authority). Amendments to the Drinking Water State Revolving Fund Act were passed in the 1997, 1999, 2001, 2003, and 2005 Legislative Sessions. The 1997 amendments changed the title of the Act from “Safe Drinking Water Treatment Revolving Fund Act” to the “Drinking Water State Revolving Fund Act” and also made other changes consistent with the Federal Act. During the 1999 Legislative Session, the 1999 amendment clarified the transfer language between the DWSRF and Water Pollution Control State Revolving Fund (WPCSRF) Programs and added GO Bond Authority. The 2001 Amendment authorized the program to advance funds to projects funded, in part, by the federal government when federal funding has been approved but not appropriated. This provides interim financing until those federal funds become available. The 2003 Amendment increased GO Bonding Authority by $10 million, raising the total to $30 million. The 2005 amendment authorized the issuing of Revenue or Grant Anticipation Notes and authorized limited principal forgiveness to disadvantaged communities.

II. EXECUTIVE SUMMARY SFY05

During SFY 05 Montana was awarded it’s eighth and ninth capitalization grants in the amount of $16,588,524 for FFY 04 and 05.

Since the inception of the DWSRF, Montana has issued five GO bonds and one Bond Anticipation Note (BAN). The proceeds of which have been used as state match for loans, set asides, and program administration. Montana issued its first GO bond in October 1998 (SFY99), the second GO Bond in April 2000 (SFY00), the third GO bond in June 2001 (SFY01), the fourth GO Bond in June 2003 (SFY03); and the fifth GO Bond in May 2005 (SFY05). The

total amount of bonds issued to date is $14,795,000. A summary of these bond issues is provided in Exhibit 1. Montana is planning for its sixth GO Bond in calendar year 2005.

Exhibit 1, Sources of DWSRF Funds Through SFY05, provides a complete tabulation of capitalization grant awards received through June 30, 2005, projected state match, binding commitments for loan projects through SFY05, and GO bonds and BANs issued for state match. The combination of capitalization grants and bond proceeds provide the needed funds for DWSRF projects, set asides, and program administration during SFY05. In addition, DNRC provided a portion of their program administration services as an in-kind contribution in the amount of $-0- for SFY05.

During SFY05, the DWSRF program executed 16 project binding commitment agreements totaling $12,352,000, and increase of one commitment in the amount of $331,000, with total commitment of funds of $12,683,000 for the period. For a detailed breakdown of all DWSRF binding commitments signed and key dates of project activity that occurred in SFY05, refer to Exhibit 2: DWSRF SFY05 Binding Commitments Executed. See Exhibit 3 and 4 for the closed loans.

Detailed information concerning use of DWSRF funds, accomplishments of the program and adherence with the stated goals of the program are provided on the following pages.

III. GOALS OF THE DWSRF

Long-Term Goals

1. To continue building and maintaining a permanent, self-sustaining state revolving fund program that will serve as a cost-effective, convenient source of financing for drinking water projects in Montana.

   Projects funded during SFY05 met all program requirements governing financial capability to assume debt. Eight of thirteen projects received an interest rate of 3.75% on their loans (well below market rates) and five of the thirteen qualified for an interest rate of 2.75% under the disadvantaged community criteria or interim financing. These factors illustrate that the assistance is affordable. Refer to Exhibit 3 & 4. A copy of the cash flow with all the activity through SFY05 is included in this report as Appendix A.

2. To provide a financing and technical assistance program to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

   To promote the availability of these DWSRF program services during SFY05, DWSRF staff presented information at a variety of events. This included one infrastructure workshop and the annual Montana Rural Water Systems conference, as well as meeting one on one with community leaders.

   Please also refer to the project descriptions and discussion of set-asides provided in Section V: Details of DWSRF Activity.

Short-Term Goals

1. Continue implementation and maintain the Drinking Water State Revolving Fund Program in

Montana.

Montana received approval of its DWSRF program and award of the FFY97 capitalization grant on June 30, 1998 and eight additional capitalization grants have been received since that time.

2. Ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities.

   The trained technical staff of the Planning, Prevention and Assistance Division (PPAD) continues to use the DWSRF Handbook of Procedures and knowledge gained from many years of operating the WPCSRF Program to ensure that this objective is met. The Handbook of Procedures is used as a guide to ensure that all state and federal laws governing the technical aspects of each project are satisfied.

   Steps were taken to update the Handbook of Procedures and streamline checklists and processes. A final revised edition was submitted to EPA in September 2001. This project was completed in early SFY02.

   Staff attends training seminars and workshops to maintain and improve technical, financial and programmatic knowledge. In SFY05, Anna Miller, John Tubbs, Mark Smith, Janice Yearry, Diana Hoy, and Bob Fischer attended the Council of Infrastructure Financing Authorities (CIFA) National Workshop; Anna Miller, John Tubbs, Bob Fischer, Robert Ashton and Mark Smith attended the Montana Rural Water Systems Conference; Gary Wiens, Robert Ashton, Marc Golz, and Mark Smith attended the Montana AWWA Conference; Anna Miller, John Tubbs, and, Mark Smith attended the CIFA Legislative Conference. Marc Golz, Mark Smith, Gary Wiens, Anna Miller, Diana Hoy, Janice Yearry, Carrie Villa, John Patrick, and Bob Fisher attended the Region 8 All-States Meeting. Mark Smith also attended the annual meeting of the American Council of Engineering Companies of Montana.

3. Ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.

   See Appendix A: Cash Flow Model SFY05.

4. Ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations.

   To the best of our knowledge, the DWSRF program has ensured Public Water Supply Supervision (PWSS) compliance through the projects that have been funded and the various set-aside activities. Close coordination with the PWSS program has been essential in this effort.

   The only exception is the project for the City of Boulder, which was funded in SFY 2000. The community historically had copper exceedances and was out of compliance with the Lead and Copper Rule. Extensive distribution system replacement was intended to mitigate the problem. Additional evaluation and corrective action are being planned at this time.

5. Obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the set-aside activities not directly related to the loan portfolio.

Since the approval of its DWSRF loan program and first capitalization grant award, Montana has been awarded eight more capitalization grants, utilized the provision to transfer funds between the WPCSRF and DWSRF, and generated other revenue from loan repayments and interest investments. The loan fund now totals over $64,225,226. Please see Appendix D project list and location map.

IV. FINANCIAL REPORTS

The Montana Legislative Audit Division (LAD) has completed their audit work of the SFY04. Financial statements were presented to the Legislative Audit Committee (LAC). An unqualified opinion was issued for the financial statements. A copy of the report was submitted to EPA Region VIII.

DEQ and DNRC engaged LAD to audit the State Revolving Fund financial activity beginning in SFY98. This decision was based on a new audit requirement conveyed in a directive from the Office of Water, Inspector General's Office, and the Office of Management and Budget.

A copy of the SFY05 un-audited financial statements, including footnotes is attached as Appendix B of this report. The SFY05 audit should be complete by May 2006.

V. DETAILS OF DWSRF ACTIVITY

A. LOAN ASSISTANCE

During SFY05 the DWSRF program closed thirteen loans; signed sixteen project binding commitment agreements; and increased one binding commitment.

Project Bypass

If it is determined by DEQ that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the Drinking Water SRF funds, other projects may be funded in an order different from that indicated on the priority list. If DEQ chooses to bypass higher ranked projects, it should follow the bypass procedure.

Montana bypassed 124 projects on its Priority List with the funding of the Town of Neihart ranked 137. Twelve other loans were closed. The higher ranked projects were not ready to proceed at the time, or perhaps were being financed by other funding entities. They were by-passed to fund lower ranked projects that were ready to proceed with construction, or that had already been constructed and desired refinancing to improve financial capacity. Refer to Exhibit 3: DWSRF Capitalized Grant Closed Loans For SFY05 and Exhibit 4: DWSRF Recycled Closed Loans For SFY05. Notification was sent to all by-passed communities that described the proposed projects to be funded, and also included the assurance that funds were still available for all loan applications anticipated at that time. No responses were received. No emergency projects were funded in SFY05.

Disadvantaged Communities

Communities seeking a Drinking Water SRF loan that meet the disadvantaged community criterion described in the Intended Use Plan may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing. This includes communities that will

meet the disadvantaged criterion based on projected rates as a result of the project.

In SFY05, Montana closed five loans and one Bond Anticipation Note (BAN) at a 2.75% interest rate, in the amount of $1,607,617, no other communities satisfied the disadvantaged criteria. In SFY06 we will have several loans with communities that qualify for the disadvantaged interest rate.

Small Systems

The table below shows the breakdown of the population served by our loans in FY05. We have thirteen loans for a total of $5,519,622. Eleven of these loans are with small systems that serve a population of less than 10,000 people. Small systems represent 85% of the loans made in FY05**.**

Public Water Supply	Population	Loan Amount
1. Bozeman	27,509	$94,000
2. Charlo Water District	430	$85,000
3. Columbia Falls	3645	$502,000
4. Dry Prairie Rural Water Authority	10,439	$313,000
5. Ennis	840	$500,000
6. Hamilton II-C	3705	$380,000
7. Hardin	3384	$453,900
8. Livingston	6851	$155,000
9. Neihart	91	$107,617
10. Shelby	3216	$700,000
11. Superior	893	$500,000
12. Superior	893	$1,229,105
13. Worden Ballantine WSD	693	$500,000
TOTAL		**$5,519,622**

Projects Provided Funding

Following is a brief summary of the projects that began or continued activity during SFY05:

BIG SKY COUNTY WATER AND SEWER DISTRICT
The Big Sky County Water and Sewer District loans were to: A) fund a project to finish installing water meters in the Meadow Village system, and B) fund the construction of a new pre-stressed concrete storage reservoir, and associated distribution work. The distribution work included a booster station, 4 pressure-regulating stations and a mainline from the tank to the existing distribution system. Construction of these projects is complete and the final draws have been made. The project helped Montana meet its intended use plan goals of improving public health protection by improving distribution system pressures and eliminating old and dysfunctional water storage reservoirs and by encouraging conservation through the use of metering.

THE CITY OF BOZEMAN
The City of Bozeman SID #674 construction refinance loan was used to refinance a short-term

construction loan. The refinance was funded through a $94,000 DWSRF loan. This construction project included installation of 8" waterline, valves, fire hydrants, water services and appurtenances in or along Bridger Center Drive and Commercial Drive with Bridger Center Subdivision. Construction began in August 2004 and was completed in November 2004. The new main is fully operational and the City of Bozeman has completed a DWSRF Refinancing Criteria Statement of Compliance. This project helps Montana meet its intended use plan goals by ensuring the technical integrity through review of related engineering documents and addressing public health protection by ensuring compliance with applicable safe drinking water rules and regulations.

CHARLO – LAKE CO. WATER & SEWER DISTRICT

The Charlo Water & Sewer District construction refinance loan was used to refinance a short-term construction loan. The refinancing funds came from a $85,000 DWRSF Loan. This construction project included drilling an 8-inch replacement municipal water well, installation of a new transmission main, connection to the existing system and controls. The new well replaced a 1948 well that could no longer yield an acceptable supply of drinking water. Construction began in February 2004. The project engineer submitted a Statement of Completion in March of 2005 and the refinancing was completed in June of 2005. The new well, transmission line and controls are fully operational and the Charlo Water & Sewer District has completed a DWSRF Refinancing Criteria Statement of Compliance. This project helps Montana meet its intended use plan goals by ensuring an adequate supply to a public drinking water system.

CITY OF COLUMBIA FALLS

The City of Columbia Falls construction and engineering loan funded a water main replacement project. This project replaced existing water mains that were undersized or otherwise in need of replacement and provided some loops in the system. The $458,951 loan was closed on April 14, 2005. Construction is complete and the final draw has been made. This project helped Montana meet its intended use plan goals by replacing undersized and deteriorated mains and improving water pressures and minimizing stagnant water.

DRY PRAIRIE RURAL WATER AUTHORITY

The Dry Prairie construction loan helped fund the first part of a large regional water system project in North-eastern Montana. The project brought improved drinking water to the communities of Medicine Lake and Froid and 35 rural residences. The $313,000 DWSRF loan, closed September 15, 2005, was part of a funding package that helped install 29-miles of transmission main, a pump station and a temporary storage reservoir. Construction of this project is complete and the final draw has been disbursed. This project helped Montana meet its intended use plan goals by regionalizing a water system to provide safe drinking water to communities and rural households.

TOWN OF ENNIS

The Town of Ennis loan refinanced an existing Water Development Loan that was made in 1996 through the Montana Department of Natural Resources and Conservation's Renewable Resource Grant and Loan Program to partially fund the construction of water system improvements for the Town of Ennis. Constructed in 1996, the project consisted of the construction of a 300,000 gallon above-grade bolted steel water storage reservoir; a 12" water transmission main that conveys water from the new storage reservoir to the distribution system; and the replacement of approximately 75% of the then-existing distribution system. The initial loan amount was $750,000, and the amount refinanced was $500,000. This project helped

Montana meet its intended use plan goals by protecting public health through replacing leaking and deteriorated pipes and providing adequate water storage.

CITY OF GREAT FALLS

The City of Great Falls engineering and construction loan funded several separate projects. One project was an engineering study to evaluate the condition of the distribution system storage reservoirs. Another project is replacing existing deteriorated water mains. Also, a previous main replacement project was refinanced. The authorized loan amount is $3,000,000 and the loan closed on December 21, 2000. Replacement of existing deteriorated mains is complete. This project helped Montana meet its intended use plan goals by protecting public health through replacing leaking and deteriorated pipes and proactively addressing the maintenance of water storage reservoirs.

CITY OF HAMILTON

The City of Hamilton loan financed the construction of a 1.0 million gallon prestressed concrete storage reservoir, a new boost pump facility, the development of three wells, and the replacement of the City's downtown distribution system. Construction began in March, 2004, and was substantially complete except for the boost pump station in August, 2004. The boost pump station was completed in October 2004. The loan was phased to provide two interest rates. Additionally, a phase was provided from recycled funds to provide match money for a $385,000 STAG grant. The total loan amount is $1,418,000, all of which has been disbursed.

Project performance criteria for the boost pump facility, water storage reservoir, and wells is scheduled for October, 2005. Distribution system replacement work was completed in July, 2004, and a one-year inspection was performed on August 11th, 2005. This project helped Montana meet its intended use plan goals by protecting public health through providing an adequate source water supply and storage reservoir.

CITY OF HARDIN

The City of Hardin loan refinanced debt incurred to fund water treatment facility improvements undertaken in 1994. The improvements included water treatment plant clearwell improvements, sedimentation improvements, filter backwash piping modifications, miscellaneous plant improvements, a filter backwash lift station and a filter backwash lagoon. This project improved the quality of the city's drinking water and enabled the city to return to compliance with state and federal regulations governing the supply of drinking water to its residents.

LACASA GRANDE ESTATES WATER & SEWER DISTRICT (LEWIS AND CLARK CO.)

LaCasa Grande Estates Water and Sewer District construction loan is funding the construction of water system improvements to improve the historically low pressure and flow conditions present in the existing system. These improvements consist of an additional new well, a ground level bolted steel storage reservoir, a pumping station, some distribution system upgrades, and service meters. The initial loan amount is $150,000, and an additional loan for $500,000 was closed in SFY04. Construction began in March 2003, and completion occurred in December 2004. The final draw was made in December, 2004, also. This project helps Montana meet its intended use plan goals of ensuring the technical integrity through review of engineering designs, and funding a project that addresses public health protection. By providing sufficient water flow and pressures, the risk of contamination through backflow is greatly reduced.

CITY OF LIVINGSTON

The City of Livingston loan funded the initial purchase and installation of new water meters throughout the system and the design of replacement water mains in H Street and water main extensions to serve the west side of the city. The first meters were purchased in the fall of 2004. Design of the new mains began in late 2004 and final plans and specifications were approved by DEQ in June 2005. This project helps Montana meet its intended use plan goals by protecting public health through replacing leaking and deteriorated pipes, building system capacity and by ensuring the technical integrity of the project.

TOWN OF NEIHART

The Town of Neihart loan refinanced an existing Water Development Loan that was made in 1994 through the Montana Department of Natural Resources and Conservation's Renewable Resource Grant and Loan Program to partially fund the construction of a conventional process water treatment plant for the Town of Neihart. Constructed in 1994, the project consisted of the construction of a new plant to treat surface water from O'Brien Creek, the sole source of drinking water for the Town of Neihart. The initial loan amount was for $150,000, and the amount refinanced was $109,617. The project helped Montana meet its intended use plan goal by reimbursing a loan at a more favorable interest rate and enhancing the financial and managerial viability of the town's water supply.

PHILLIPS COUNTY – GREEN MEADOWS WATER DISTRICT

The Phillips County - Green Meadows Water District construction loans funded design and construction of a water distribution system that connected the Green Meadows subdivision with the City of Malta's community water system. The previous water system was installed in the 1970s and relied on two remote wells and an undersized, un-looped distribution system. The community was experiencing low pressure and low flow conditions during times of high demand. The project included the installation of a looped distribution system, fire hydrants, service meters, and a connection to Malta's municipal water supply. The project was funded using a $165,000 Drinking Water SRF loan. Construction began in April 2004 and was completed in June 2004. The final draw for this project was completed in September 2004. This project helps Montana meet its intended use plan goals by ensuring project technical integrity through the review of related engineering documents and onsite inspections, and ensuring compliance with applicable safe drinking water rules and regulations. Funding this project also addressed public health protection by increasing the quality and quantity of drinking water to the Green Meadows community.

POWER-TETON COUNTY WATER AND SEWER DISTRICT

The Power-Teton County Water and Sewer District construction loan (Phase I) funded design and replacement of the old water treatment plant. The project included the construction of a new treatment plant building, clearwell tank and backwash pond. Also, included was the installation of two conventional water treatment package plants and improvements to the telemetry system. The project was funded using a $400,000 DWSRF Loan. The old treatment plant did not meet current design standards and was unable to consistently provide acceptable water quality or quantity. Construction began in October 2003 with the majority of work completed by June of 2004. The new system is operating and providing Power with quality drinking water. Final inspection, completion certification and final loan draw was completed in the fall of 2004. This project helps Montana meet its intended use plan goals of ensuring the technical integrity of the project, and ensuring compliance with applicable safe drinking water rules and regulations. Funding this project also addressed public health protection by increasing the quality and quantity of drinking water to the community of Power, Montana.

CITY OF SHELBY

The City of Shelby construction loan (Phase I) funded design and construction of a disinfection building for the City's municipal well field. This work included the installation of a primary UV disinfection unit with a backup gas chlorination system. The project was funded using a $700,000 DWSRF Loan. The City was experiencing poor water quality due to precipitates formed with the addition of chlorine as required by the State Public Water Supply Section. Construction began in the fall of 2005 and was completed in the spring of 2005. The new system is operating and providing Shelby with quality drinking water. This project helps Montana meet its intended use plan goals of ensuring the technical integrity of the project, and ensuring compliance with applicable safe drinking water rules and regulations. Funding this project also addressed public health protection by increasing the quality of drinking water to the City of Shelby, Montana. Phase II of the project will replace City Well No. 4 and wellhouse, and upgrade the transmission mains within the well field (SFY 2006).

TOWN OF SUPERIOR

The Town of Superior loans refinanced a loan for the purchase of the water system and for minor improvements to the water system. Superior purchased its water supply from a private water company and installed water meters on 294 un-metered service connections. Two loans of $500,000 and $1,229,105 were made to fund this project. The $500,000 loan was made at the hardship interest rate of 2.75%, the $1,229,105 was for the balance of the project. These loans were completed in a single draw and therefore the final disbursements have been made. The project helped Montana meet its intended use plan goal by reimbursing a loan at a more favorable interest rate and enhancing the financial and managerial viability of the town's water supply.

CITY OF THREE FORKS

The City of Three Forks Water System Improvements initially consisted of two separate projects (replacement of approximately 1650 feet of water main and installation of new sequestration and disinfection facilities at three of the city's wells). The water main replacement contract was awarded in April 2004 and construction was completed in June 2004. The sequestration and disinfection improvements were initiated in May 2004 and were completed in the spring of 2005. Additionally, cost savings from the water main replacement project enabled the city to use surplus funds to drill a new well. Design of the new well was completed in the fall of 2004 and construction was completed in April 2005. These projects improved the quantity and quality of the city's drinking water and enhanced the town's ability to comply with state and federal regulations governing the supply of drinking water to its residents.

WORDEN-BALLANTINE YELLOWSTONE CO. WATER AND SEWER DISTRICT

The Worden-Ballantine Yellowstone Co. Water and Sewer District construction loan (Phase I) funded design and installation of a new concrete water storage reservoir, replacement of water mains, hydrants and valves, and improvements at the existing water infiltration gallery overflow and booster pump station, telemetry and controls. The project was funded using a $500,000 DWSRF Loan. Currently the Worden-Ballantine WSD's sole source of water is an agricultural drain, which is susceptible to backflow from a creek at the outfall. The distribution was undersized in places with hydrants attached to 4-inch mains. Also, the existing elevated storage reservoir contained less than half an average day's water demand. The new storage reservoir, mains, pumps and overflow airbreak are operational and providing the Worden and Ballantine with quality drinking water. Final inspection, completion certification and final loan draw was completed in August 2005. This project helps Montana meet its intended use plan

goals of ensuring the technical integrity of the project, and ensuring compliance with applicable safe drinking water rules and regulations. Funding this project also addressed public health protection by increasing the quality and quantity of drinking water to the communities of Worden and Ballantine, Montana. Phase II of the project will include the addition of a new water supply well (SFY 2006).

SUMMARY OF LOAN ASSISTANCE:

A tabulation of aggregate information can be found in Exhibit 5, History of DWSRF Binding Commitments. This table tabulates the quarterly federal payments, totals quarterly SRF binding commitments and cumulative binding commitments, and calculates Montana's achievement of its 100% binding commitment grant condition. In fiscal year 2005, the DWSRF maintained steady performance by executing project commitment agreements. The DWSRF completed SFY05 with binding commitments totaling 127% based on grant payments received four quarters earlier. We project in SFY06 that we will execute in excess of $23,362,000 in binding commitments. See Exhibit 6: DWSRF Projected Binding Commitments SFY06.

B. FIRST-ROUND FUNDED LOANS:

First-Round loans are financed with capitalization grants and state match. The DWSRF has financed the projects listed in Exhibit 3: DWSRF Capitalized Grant Closed Loans For SFY05.

C. RECYCLED FUNDED LOANS:

Recycled loans are financed with loan repayments from first round money and funds from transfers from the WPCSRF program. The DWSRF has financed the projects listed in Exhibit 4: Recycled Closed Loans For SFY05. There were seven loans made that used recycled funds in FY05.

D. SOURCE OF FUNDS:

Two sources of funds are used to capitalize the DWSRF: (1) the Federal Capitalization Grant, which provides 80% of the DWSRF loan funds; and (2) the state match, funded through the sale of GO bonds, which provides 20% of the DWSRF loan funds. State legislation originally authorized the sale of up to $10 million in GO bonds to match federal grant funds. In the 2003 Legislative session an additional $10 million of GO bonds was authorized for state match bringing the total authorized to $30 million. This amount is adequate to cover funds currently authorized for the program. $14,795,000 of GO bonds have been issued by the DWSRF program to use as state matching funds through SFY05. See Exhibit 1: Sources of DWSRF Funds through SFY05. In SFY 05 In-kind services of $-0- have been provided to the DWSRF program by DNRC as match to federal grant funds and were used for program administration. Also, $8,782,486 of funds have been transferred from the WPCSRF to the DWSRF for loans to date. See Exhibit 7 for a breakdown of transferred funds for SFY05. The DWSRF in FY 2005 transferred $3,570,403 to the WPCSRF program. See Exhibit 8. Also see Exhibit 8A for History of Transfer Information.

E. FEDERAL FUNDS DRAWN BY THE PROGRAM:

Exhibit 9, SFY05 Summary of Drinking Water SRF Letter of Credit to ASAP Draws shows forty one disbursement requests totaling $3,493,700, twenty three administrative set-aside disbursement requests totaling $342,072, fifty seven non-administrative set-aside requests totaling $966,026. The total federal draws for SFY 05 were $4,801,798.

F. SET – ASIDES

DWSRF Budget and Draws by Set-Asides displays the financial summary of these non-project activities, see Exhibit 10.

DWSRF ADMINISTRATION

The DWSRF set aside the maximum four percent from the capitalization grants for program administration. DEQ's contract with DNRC and other activities that occurred were:

- review and assistance during planning, design, project bidding and construction
- loan origination work, administering repayments
- preparation of bond issuance with state's bond counsel firm of Dorsey & Whitney
- financial modeling
- DWSRF program audit
- costs associated with the legislatively appointed advisory committee
- public comment processes

SMALL SYSTEMS TECHNICAL ASSISTANCE

Montana has set aside 2% (the maximum allowed) of its FFY97, FFY98, FFY99, and FFY03 Drinking Water State Revolving Loan Fund grants for small systems technical assistance. In addition, the MDEQ has reserved authority for the 2% allocation from the FY00 and FY01 grants. No additional funds were set aside from the FY 02 grant. An additional $135,000 was set aside from the FY 04 grant, and a $125,000 from the FY 05 grant, for a total of $973,226.

The set-aside is used for contracted services and administration of contracts. A contract was awarded in 1999 to Midwest Assistance Program of Montana to provide operation and maintenance technical assistance. Since implementation, the contractor has made over 730 site visits to small public water supplies for a total cost of $718,200. Evaluations of this service, conducted annually by MDEQ, indicate the program is successfully helping small public water suppliers to effectively maintain and operate their water systems. Contracted technicians help water system operators develop or enhance technical capabilities that assist them in meeting the capacity development requirements of the 1996 amendments to the Safe Drinking Water Act.

An evaluation of the contract by DEQ DWSRF staff in May and June 2004 determined that the contract should be continued. The contract was renewed for state fiscal year 2005 (July 2004 through June 2005). The contracted services are provided to systems serving a population of 10,000 or less. Approximately 0.10 FTE is needed to provide contract oversight related to this set-aside.

PUBLIC WATER SUPPLY SUPERVISION SET-ASIDE: ADMINISTRATION

This set-aside will fund salaries, benefits and operating expenses for five (5.0) water quality specialists that been assigned to the Helena, Billings and Kalispell Offices, respectively. The Helena position was funded through the set-aside grant for SFY06 & 07. These positions will provide technical assistance to water suppliers, perform sanitary surveys, and operator training. These positions will also provide direct assistance to water suppliers in implementation of the Lead and Copper Rule, Phase 2/5 rules, Total Coliform Rule, Consumer Confidence Report Rule, Enhanced Surface Water Treatment Rules, Filter Backwash Rule, Disinfection/Disinfection By-Products Rule, Radionuclides Rule, and the state's ground water chlorination rule. The set-aside will also fund database development expenses associated with implementation and maintenance of SDWIS/state database, associated state-specific Oracle modules, and contracted sanitary surveys for over 125 public water supplies.

PWSS SOURCE WATER PROTECTION (SWP)

Section 1452(g)(2)(B) of the SDWA allows Montana to set aside a portion of the capitalization grant to "administer or provide technical assistance through source water assessment programs." Set-aside funds in the amount of $100,000 were used in State FY05 to administer the Source Water Protection Program and to provide technical assistance to local communities in the development of source water protection plans.

The specific goals achieved in State FY05 were to:

- Maintain and enhance public accessibility to spatial data essential to the local development of source water protection plans through the interactive spatial data query system,
- Provided training to PWS operators, managers, and local officials in using source water delineation and assessment reports to develop local source water protection plans,
- Provide outreach to communities on source water protection,
- Provide technical support to non-profit technical assistance providers relating to source water protection plan development.

CAPACITY DEVELOPMENT

The 1996 Amendments to the Safe Drinking Water Act allow states to use SRF funds to establish authority to enforce capacity requirements and to implement a capacity development strategy. This ensures that all new and existing community and non-transient non-community public water supply systems have the necessary technical, financial and managerial capability to comply with all of the primary requirements of the SDWA. EPA also requires that systems demonstrate adequate capacity in these areas as a condition of approval for Drinking Water SRF loans.

The state could have lost substantial portions of initial capitalization grants if it did not develop and implement strategies to assist existing water systems with capacity development. DEQ avoided the first of these withholding provisions by obtaining approval in 2000 of the state's Capacity Development Strategy for Existing Public Water Supply Systems. Subsequent withholding provisions of future capitalization grants can be avoided by adhering to the approved strategy and complying with the requirements for reporting capacity development improvements to the EPA.

The strategies are a methodology used to identify and prioritize public water systems in need of improving technical, financial, and managerial capacity (a complete copy of the capacity development strategies can be obtained from DEQ). Part of these strategies includes providing assistance to those systems by use of the set-aside funding. The state of Montana has over 1900 public water supplies. Given the large number of systems and a shortage of staff with the requisite financial and managerial experience, the department has chosen to provide these services through a contractor. The department entered into a contract with the Midwest Assistance Program in March 2001 to provide these assistance services. Since then, MAP has provided in-depth financial and managerial services to more than 90 public water systems. The contract was renewed for State Fiscal Year 2006 (July 2005 through June 2006).

PWSS Operator Certification

This set-aside has been used for personal services and operating expenses for staff in the Operator Certification Program. Set-aside funds are used to pay portions of the salary and benefits for all three full-time staff positions, as well as program operating expenses.

In the past year, the program has certified approximately 1590 operators, including operators for approximately 660 community systems and 230 non-transient non-community systems. These water and wastewater operators hold over 3,450 certifications. Certification program activities include public outreach, collection and processing of applications, collection and processing of examination and certification fees, training, administration of exams, monitoring of continuing education credits, compliance monitoring, and assistance with formal enforcement activities. Over 97% of the public water supply systems in each category have certified operators.

The Certification Program Manager sent the draft program to EPA Region VIII and Headquarters in October of 1999 and the program was formally approved in December 2000. The latest approval of Montana's Operator Certification Program annual submittal package was received from USEPA on October 13, 2004. Positive feedback for the program has been received from both EPA Region VIII and Headquarters.

The DEQ requested and received approval for spending authority from the 2001 state legislature for very small water system expense reimbursement grant funding. EPA approved the grant application, and the reimbursement program began making reimbursements in October of 2002. Expenses associated with mandatory training expenses incurred after July 1, 2002 are eligible for reimbursement. EPA has approved modifications to the original workplan. This funding source now allows the department to provide funds towards enhancing training programs and opportunities for small system operators in Montana. The funds will be provided to Montana Training Providers to assist in maintaining and enhancing the training offered to operators of water systems serving a population of 3,300 or fewer. During FY 2003 and 2004, the operator reimbursement program allocated funds to enhance the training for water system operators serving a population of 3,300 or fewer. Over 1,200 operators attended enhanced training sessions that benefited from the allocated funds.

The department is continuing with the transition of current water exams to standardize Association of Boards of Certification (ABC) water treatment and water distribution examinations. The department has developed Montana specific needs-to-know topics, questions were then selected to develop standardized Montana exams utilizing ABC questions. The existing study guides for operators were then modified to reflect the new needs-to-know topics and exams. The new examinations were first administered on October 1, 2004. During fiscal year 2006, the Department will continue to administer the exams, but will track progress and evaluate statically data. These examinations will be modified as necessary until the Department has valid, comprehensive, and fair examinations.

Local Assistance and Other State Programs - Source Water Delineation and Assessment and Wellhead Protection

Montana used funds from the Source Water Assessment set-aside for delineation and assessment work. The Montana SWP Program was submitted to EPA in January 1999, following an extensive development process that included advisory council input as well as consideration of comments received through public meetings held around the state and an

Internet based enhanced public participation project. EPA approved the program in November 1999.

Implementation of the Montana SWP Program continued in SFY05 through the completion of source water assessment reports for public water supplies by DEQ staff and by contractors with approximately 80% of the required reports either completed or in progress at the end of the period. Assessment reports follow a standard format as described by the program plan. Additionally, Montana incorporates monitoring waiver recommendations in each report in order to add value for recipient PWSs.

According to EPA, the target implementation deadline for Montana was April 24, 2003. Montana formally requested a target deadline extension through the end of State FY2006 in order to ensure adequate time is available to continue producing the high quality reports currently being completed. EPA acknowledged that request. Staff-level work plans have been completed based on the new implementation schedule end date. Funding through the Source Water Assessment set-aside was discontinued on April 24, 2003 and the balance transferred to the Wellhead Protection set-aside category pursuant to section 1452(k)(1)(D) under which wellhead assessments continued to be completed through the end of the fiscal year. Montana is on target to complete assessments by the end of SFY06.

VI. GRANT CONDITIONS AND CERTIFICATIONS

The State of Montana agreed to the following conditions outlined in the Operating Agreement. These items are discussed in more detail throughout the body of this report. To the best of our knowledge, DEQ and DNRC have abided by all requirements of state and federal law in the administration of this program.

(a) Assurance that the State has the authority to establish a Fund and operate the DWSRF program in accordance with SDWA.

The State of Montana's authority was re-certified and included with our application for and award of the FFY04 and FFY05 capitalization grants.

(b) Assurance that the State will comply with State Statutes and regulations.

(c) Assurance that the State has the technical capability to operate the program.

(d) Assurance that the State will accept capitalization grant funds in accordance with a payment schedule.

Please see Exhibit 10: Drinking Water State Revolving Fund Fiscal Year 2005 Budget v. Draw by Category.

(e) Assurance that the State will deposit all capitalization grant funds in the Fund or Set-Aside Account.

(f) Assurance that the State will provide an amount equal to at least 20 percent of the capitalization grant (State match) in the Fund.

(g) Assurance that the State will deposit net bond proceeds, interest earnings, and repayments into the Fund.

(h) Assurance that the State will match capitalization grant funds the State uses for 1452(g)(2) set -asides.

(i) Assurance that the State will use Generally Accepted Accounting Principles.

(j) Assurance that the State will have the Fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

Please see Appendix B.

(k) Assurance that the State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of privately owned system, demonstrate that there is adequate security).

(l) Assurance that the State will commit and expend funds as efficiently as possible, and in an expeditious and timely manner.

(m) Assurance that funds will be used in accordance with the Intended Use Plan.

Please see Appendix C: Drinking Water SRF Intended Use Plan and Project Priority List, SFY 2006.

(n) Assurance that the State will provide EPA with an Annual Report.

The submission of this document will fulfill the State of Montana's responsibility to submit a report.

(o) Assurance the State will comply with all Federal crosscutting authorities.

(p) The state agrees that it will conduct an environmental review and a determination will be executed and distributed using a state process consisting of the same level of environmental detail required under the state Environmental Review Process for the Drinking Water SRF Program.

All construction projects that received assistance during SFY05 were reviewed and approved using the Montana Environmental Policy Act (MEPA). It was determined that no Environmental Impact Statements were necessary. An Environmental Assessment was prepared and a Finding of No Significant Impact was issued for all projects.

(q) The use of set-asides for Administrative Expenses, Small Systems Technical Assistance, State Program Management (Public Water Supply Supervision, Source Water Protection, Capacity Development, and Operator Certification), Local Assistance and Other State Programs (Source Water Delineation) will be identified each year in the IUP and established in accordance with the Drinking Water SRF Program Guidelines.

(r) Specific Requirements under Title XIV

1. In accordance with Section 1420(a) of the Safe Drinking Water Act, the state has the authority to ensure that all new community water systems and new nontransient, noncommunity water systems commencing operation after October 1, 1999, can

demonstrate technical, managerial, and financial capability with respect to each national primary drinking water regulation in effect.

EPA has reviewed and approved Montana's capacity development authority and strategies. Administrative Rules that implement Montana's strategies became effective on September 10, 1999.

2. The state currently has a water and wastewater treatment plant operators certification program within the Permitting and Compliance Division, Department of Environmental Quality.

In addition, the following conditions were given with the Capitalization Grant Award. To the best of our knowledge, DEQ and DNRC have abided by these requirements as well.

- The recipient agrees to ensure that all space for conferences, meetings, conventions, or training funded in whole or in part with Federal funds complies with the Hotel and Motel Fire and Safety Act of 1990.

- EPA Order 1000.25 Recycled Paper – DEQ is using recycled paper for printing reports to be delivered to EPA.

- Minority Business Enterprises/Women Business Enterprises (MBE/WBE) Utilization Under Federal Grants – During SFY05 loan recipients were required to comply with all Federal requirements concerning Disadvantaged Business Enterprises (DBE) Utilization either by project specification or submitting appropriate reports during construction.

- The state's fair share goal for DBE participation is 5% for SFY05 (2% MBE, 3% WBE). Refer to Exhibit 11 for the summary of the DWSRF Loans- MBE/WBE for contracts awarded during SFY05.

VII. CURRENT STATUS AND FUTURE ACTIVITIES

The DWSRF continues to use US Bank as its trustee to manage funds and accounts established under the program. To date this arrangement has been very beneficial. DNRC has internet access to US Bank accounts, which has made monthly reconciliation of WPCSRF and DWSRF accounts more timely. D.A. Davidson and Co. and Piper Jaffray Inc. continue to act as the DWSRF bond underwriters and financial advisors. Dorsey & Whitney will continue to act as DWSRF bond counsel for the general obligation bonds issued in future fiscal years.

Also, DEQ has continued work on the development of a complete database, which ultimately will include links with the DWSRF, the PWSS program, and fiscal services in both DEQ and DNRC. The Planning Division has a .5 FTE position for development of the WPCSRF and DWSRF databases. This person is coordinating database development and serves as liaison between SRF program staff and DEQ's data processing staff. Databases for each SRF Program are undergoing Beta Testing and are nearly operational. They will facilitate federal reporting during SFY 06.

The following schedule indicates the key dates for continuation of the Drinking Water State Revolving Fund Loan Program in SFY06:

SFY06 ESTIMATED KEY DATES	**ACTIVITY**
August 2005	Held DWSRF bi-monthly meeting
October 2005	Held DWSRF bi-monthly meeting
October 2005	Hold infrastructure financing workshops to promote and market DWSRF Program.
October 2005	Attend Fall CIFA Conference
December 2005	Hold DWSRF bi-monthly meeting
February 2006	Hold DWSRF bi-monthly meeting
Spring 2006	Hold infrastructure financing workshops to promote and market DWSRF program
Spring 2006	Host Region VIII All States Meeting
April 2006	Hold DWSRF bi-monthly meeting
May 2006	Attend Spring CIFA Conference
June 2006	Hold DWSRF bi-monthly meeting

VIII. GLOSSARY OF ACRONYMS AND INITIALIZATIONS

ASAP	Automated Standard Application for Payments
AWWA/MWEA	American Water Works Association/Montana Water Environment Association
BAN	Bond Anticipation Note
CIFA	Council of Infrastructure Financing Authorities
DBE	Disadvantaged Business Enterprises
DEQ	Montana Department of Environmental Quality
DNRC	Montana Department of Natural Resources and Conservation
DWSRF	Drinking Water State Revolving Fund
EPA	Environmental Protection Agency
FFY	Federal Fiscal Year (which begins October 1 and ends September 30)
GAN	Grant Anticipation Note
GO	General Obligation
IUP	Intended Use Plan
LT2ESWTR	Long Term 2 Enhanced Surface Water Treatment Rule
LAC	Legislative Audit Committee
LAD	Legislative Audit Division
LOC	Letter of Credit
MBE	Minority Business Enterprises
MPDES	Montana Pollution Discharge Elimination System
NPS	Nonpoint Source
NMP	National Municipal Policy
PPAD	Planning, Prevention and Assistance Division
PPL	Project Priority List
PWSS	Public Water Supply Supervision
RSID	Rural Special Improvement District
SDWA	Safe Drinking Water Act
SFY	State Fiscal Year (which begins July 1 and ends June 30)
SID	Special Improvement District
SWP	Source Water Protection
TFAB	Technical and Financial Assistance Bureau
TSEP	Treasure State Endowment Program

USDA – RD	United States Department of Agriculture, Rural Development
W_2ASACT	Water, Wastewater and Solid Waste Action Coordinating Team
WBE	Women Business Enterprises
WPCSRF	Water Pollution Control State Revolving Fund

EXHIBIT 1: SOURCES OF DWSRF FUNDS THROUGH SFY05

Grant Number, Award Date & Year Funds Appropriated	State Fiscal Year Activity	Cap. Grant Amount	Projected State Match	Project Commitments by Fiscal Year	Actual State Match GO Bonds Issues
1) FS-998850-97 6/30/98; 1997	1998	$ 14,826,200	$ -	$ -	$ -
No Grants awarded in SFY99	1999	$ -	$ 2,965,240	$ 24,274,000	(1) * $3,065,000
2) FS-998850-98 7/26/99; 1998	2000	$ 7,121,300	$ 1,424,260		$ -
3) FS-998850-99 9/14/99; 1999		$ 7,463,800	$ 1,492,760	$ 15,073,701	(2) $2,990,000
4) FS-998850-00 10/02/00; 2000	2001	$ 7,757,000	$ 1,551,400		$ -
5) FS-998850-01 05/21/01; 2001		$ 7,789,100	$ 1,557,820	$ 11,204,000	(3) $3,190,000
6) FS-998850-02 02/21/02; 2002	2002	$ 8,052,500	$ 1,610,500	$ 3,495,000	$ -
No Grants awarded in SFY03	2003	$ -		$ 9,090,000	(4) $1,675,000
6) FS-998850-03 07/16/03 (set asides) & 6/28/04; 2003	2004	$ 8,004,064	$ 1,600,813	$ 8,180,780	$ -
7) FS-998850-05 08/16/04 (04 set asides), 6/16/05 (2004 & 2005 grants & 2005 set asides)	2005	$ 16,588,524	$ 3,317,705	$ 12,683,000	$ 3,875,000
TOTAL		$ 77,602,488	$ 15,520,498	$ 84,000,481	$ 14,795,000

* Bond Anticipation Notes issued before bond.

1) First General Obligation Bond Issued October 1, 1998 for $3,065,000
2) Second General Obligation Bond Issued April 15, 2000 for $2,990,000
3) Third General Obligation Bond Issued June 15, 2001 for $3,190,000
4) Fourth General Obligation Bond Issued June 15, 2003 for $1,675,000
5) Fifth General Obligation Bond Issued April 19, 2005 for $3,875,000

EXHIBIT 2: DWSRF SFY05 BINDING COMMITMENTS EXECUTED

Public Entity	Type of Security	B.C. Date	B.C. Amount	Bond Amount	Total Drawn *	Balance Remaining	Closing Date	Gross interest	Net Interest	Term
Columbia Falls	Revenue	2/11/2005	$ 502,000.00	$ 502,000.00	$ 458,951.00	$ 43,049.00	4/21/2005	3.75%	2.00%	20
Ennis	Revenue	7/20/2004	$ 500,000.00	$ 500,000.00	$ 500,000.00	$ -	12/15/2004	2.75%	2.00%	11.5
Hardin	Revenue	2/11/2005	$ 459,000.00	$ 453,900.00	$ 453,900.00	$ -	4/29/2005	3.75%	2.00%	9.5
Helena	Revenue	5/6/2005	$ 3,100,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Livingston	BAN	10/29/2004	$ 155,000.00	$ 155,000.00	$ 155,000.00	$ -	12/15/2004	2.75%	2.00%	2
Livingston	Revenue	1/25/2005	$ 569,000.00	$ -	$ -	$ -		3.75%	2.00%	15
Livingston	SID	3/21/2005	$ 185,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Livingston	TIF	3/21/2005	$ 559,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Livingston (inc)**	Revenue	4/14/2005	$ 331,000.00	$ -	$ -	$ -		3.75%	2.00%	15
Lockwood	Revenue	2/2/2005	$ 500,000.00	$ -	$ -	$ -		2.75%	2.00%	10
Lockwood	Revenue	2/2/2005	$ 500,000.00	$ -	$ -	$ -		3.75%	2.00%	10
Miles City	Revenue	6/17/2005	$ 1,050,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Plentywood	Revenue	4/14/2005	$ 500,000.00	$ -	$ -	$ -		2.75%	2.00%	30
Plentywood	Revenue	4/14/2005	$ 370,000.00	$ -	$ -	$ -		3.75%	2.00%	30
Power Teton	Revenue	2/22/2005	$ 375,000.00	$ -	$ -	$ -		2.75%	2.00%	20
Thompson Falls	Revenue	6/16/2005	$ 500,000.00	$ -	$ -	$ -		2.75%	2.00%	20
Thompson Falls	Revenue	6/16/2005	$ 895,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Three Forks	Revenue	5/16/2005	$ 200,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Upper Lower River Rd	Revenue	3/7/2005	$ 938,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Wolf Point	Revenue	6/15/2005	$ 630,000.00	$ -	$ -	$ -		3.75%	2.00%	20
Neihart ***	Revenue		$ (35,000.00)	$ -	$ -	$ -		2.75%	2.00%	20
Worden Ballantine ***	GAN		$ (100,000.00)	$ -	$ -	$ -		2.75%	2.00%	20
Total Committed			$ 12,683,000.00	$ 1,610,900.00	$ 1,567,851.00	$ 43,049.00				

1 Commitment letter, 2 loans for Lockwood, Plentywood, and Thompson Falls

***Removed - Withdrew application for these loans but did another type of loan.

****Increase to a prior quarter binding commitment

Livingston Revenue total binding commitment $900,000

* Total drawn amount does not include prior fiscal year disbursements.

EXHIBIT 3: DWSRF CAPITALIZED GRANT CLOSED LOANS FOR SFY 05

Public Entity	Type of Security	B.C. Date	B.C. Amount	Loan Amount	Total Drawn	Balance Remaining	Closing Date	Gross interest
Columbia Falls	Revenue	2/11/2005	$ 502,000	$ 502,000	$ 458,951	$43,049	4/21/2005	3.75%
Livingston	BAN *	10/29/2004	$ 155,000	$ 155,000	$ 155,000	$0	12/15/2004	2.75%
Shelby	Revenue	3/24/2004	$ 700,000	$ 700,000	$ 674,144	$25,856	11/4/2004	3.75%
Superior	Revenue	5/13/2004	$ 500,000	$ 500,000	$ 500,000	$0	11/4/2004	2.75%
Superior	Revenue	5/13/2004	$ 1,300,780	$ 1,229,105	$ 1,229,105	$0	11/4/2004	3.75%
Worden Ballantine WSD	Revenue	12/16/2004	$ 500,000	$ 500,000	$ 429,956	$70,044	5/12/2005	2.75%
Closed Loans			$ 3,657,780	$ 3,586,105	$ 3,447,156	$138,949		

* This is a short term financing.

EXHIBIT 4: DWSRF RECYCLED CLOSED LOANS FOR SFY 05

Public Entity	Type of Security	B.C. Date	B.C. Amount	Loan Amount	Total Drawn	Balance Remaining	Closing Date	Gross interest
Bozeman	SID	5/14/2004	$100,000	$94,000	$94,000	$0	12/23/2004	3.75%
Charlo Water District	Revenue	1/12/2004	$100,000	$85,000	$85,000	$0	6/20/2005	3.75%
Dry Prairie Rural Water Authority	Revenue	9/2/2003	$313,000	$313,000	$313,000	$0	9/15/2004	3.75%
Ennis	Revenue	7/20/2004	$500,000	$500,000	$500,000	$0	12/15/2004	2.75%
Hamilton II-C	Revenue	2/24/2003	$380,000	$380,000	$380,000	$0	7/20/2004	3.75%
Hardin	Revenue	2/11/2005	$459,000	$453,900	$453,900	$0	4/29/2005	3.75%
Neihart	Revenue	4/27/2004	$110,000	$107,617	$107,617	$0	8/30/2004	2.75%
Closed Loans			$1,962,000	$1,933,517	$1,933,517	$0		

EXHIBIT 5: HISTORY OF DWSRF BINDING COMMITMENTS

Federal Fiscal QTR/YR	State Fiscal Year	Qtr	Grant Payments	Cumulative Payments	Binding Commitment	Fiscal Year Binding Commitment	Cumulative Binding Commitment	BC/Payments One Year Earlier
4Q FFY97	SFY98	1	$0	$0	$0	$0	$0	
1Q FFY98	SFY98	2						
2Q FFY98	SFY98	3						
3Q FFY98	SFY98	4	15,094,248	15,094,248				
4Q FFY98	SFY99	1		15,094,248	22,935,000		22,935,000	
1Q FFY99	SFY99	2		15,094,248	291,000		23,226,000	
2Q FFY99	SFY99	3		15,094,248			23,226,000	
3Q FFY99	SFY99	4		15,094,248	1,048,000	24,274,000	24,274,000	
4Q FFY99	SFY00	1	7,777,812	22,872,060	4,193,000		28,467,000	
1Q FFY00	SFY00	2		22,872,060	3,832,000		32,299,000	213.98%
2Q FFY00	SFY00	3		22,872,060	2,321,373		34,620,373	229.36%
3Q FFY00	SFY00	4		22,872,060	4,727,328	15,073,701	39,347,701	260.68%
4Q FFY00	SFY01	1	8,173,932	31,045,992	1,250,000		40,597,701	177.50%
1Q FFY01	SFY01	2		31,045,992	2,265,000		42,862,701	187.40%
2Q FFY01	SFY01	3		31,045,992	2,893,000		45,755,701	200.05%
3Q FFY01	SFY01	4		31,045,992	4,796,000	11,204,000	50,551,701	221.02%
4Q FFY01	SFY02	1	8,648,120	39,694,112	1,641,000		52,192,701	168.11%
1Q FFY02	SFY02	2		39,694,112	1,066,000		53,258,701	171.55%
2Q FFY02	SFY02	3		39,694,112	604,000		53,862,701	173.49%
3Q FFY02	SFY02	4	8,910,356	48,604,468	184,000	3,495,000	54,046,701	174.09%
4Q FFY02	SFY03	1		48,604,468	2,500,000		56,546,701	142.46%
1Q FFY03	SFY03	2		48,604,468	887,000		57,433,701	144.69%
2Q FFY03	SFY03	3	8,805,900	57,410,368	4,703,000		62,136,701	156.54%
3Q FFY03	SFY03	4		57,410,368	1,000,000	9,090,000	63,136,701	129.90%
4Q FFY03	SFY04	1		57,410,368	1,384,000		64,520,701	132.75%
1Q FFY04	SFY04	2		57,410,368	1,229,000		65,749,701	135.28%
2Q FFY04	SFY04	3		57,410,368	3,355,780		69,105,481	120.37%
3Q FFY04	SFY04	4	8,574,713	65,985,081	2,212,000	8,180,780	71,317,481	124.22%
4Q FFY04	SFY05	1		65,985,081	565,000		71,882,481	125.21%
1Q FFY05	SFY05	2		65,985,081	(45,000)		71,837,481	125.13%
2Q FFY05	SFY05	3		65,985,081	4,587,000		76,424,481	133.12%
3Q FFY05	SFY05	4	-	65,985,081	7,576,000	12,683,000	84,000,481	127.30%
	TOTALS		$ 65,985,081				$ 84,000,481	
	CUM TOTAL		$ 65,985,081				$ 84,000,481	

EXHIBIT 6: DWSRF PROJECTED BINDING COMMITMENTS SFY 06

Public Entities	Estimated Date of Commitment	Estimated Loan Amounts
Plains	Jul-05	$280,000
Billings	Jul-05	$17,300,000
Sheridan BAN	Aug-05	$95,000
Sheridan	Aug-05	$462,000
Great Falls	Jan-06	$2,000,000
Polson	Jan-06	$500,000
Sun Prairie W & S District	Mar-06	$2,933,000
Pleasant View W & S District	May-06	$92,000
Total		$23,662,000

EXHIBIT 7: WPCSRF TRANSFERRED RECYCLED FUNDS FOR THE DRINKING WATER SRF

	Public Entity	Type of Security	Transfer Date	Disbursed Amount
SFY 2000	Boulder	Revenue	6/15/2000	$1,294,000
	Broadview	Revenue	2/7/2000	$203,000
	Columbia Falls	Revenue	5/8/2000	$907,000
	Cut Bank I	Revenue	12/6/1999	$283,000
	Havre I	Revenue	5/26/2000	$146,328
	Plentywood	Revenue	8/31/1999	$577,000
	Seeley Lake W & S	Revenue	9/8/1999	$1,340,000
SFY 2001	Missoula County Fairgrounds	GO	7/20/2000	$232,158
	Lockwood W & S	Revenue	4/27/2001	$1,700,000
	River Rock W & S	Revenue	5/1/2001	$2,100,000
SFY 2002	No Transfers in FY2002			$0
SFY 2003	No Transfers in FY2003			$0
SFY 2004	No Transfers in FY2004			$0
SFY 2005	No Transfers in FY2005			$0
	Transferred Loan Amount			$8,782,486

Transfer I Authority	$4,892,646	(33% of 1996 & 1997 Grants)
Transfer II Authority	$2,350,029	(33% of 1998 Grant)
Transfer III Authority	$2,463,054	(33% of 1999 Grant)
	$9,705,729	
Disbursed for FY00	$4,750,328	
Disbursed for FY01	$4,032,158	
Disbursed for FY02	$0	
Disbursed for FY03	$0	
Disbursed for FY04	$0	
Disbursed for FY05	$0	
	$8,782,486	
Transfer Balance Remaining	$923,243	

EXHIBIT 8: DWSRF TRANSFERRED RECYCLED FUNDS TO THE WATER POLLUTION CONTROL SRF

	Public Entity	Type of Security	Transfer Date	Disbursed Amount
SFY2003	No Funds Transferred in SFY			
SFY2004	RDB VI	GO Bond	4/12/2004	$32,654
	RDB VII	GO Bond	4/12/2004	$266,614
	Missoula-Mullan Rd	Revenue	4/12/2004	$783,016
	Missoula County SID 524	SID	4/12/2004	$538,104
	Belgrade	Revenue	4/12/2004	$48,669
	Sweet Grass	Revenue	4/12/2004	$1,310
	Big Sky III	GO Bond	4/12/2004	$570,588
	Manhattan II	Revenue	4/12/2004	$69,802
SRF2005	Park City County	Revenue	7/1/2004	$41,428
	Virginia City	Revenue	7/1/2004	$58,662
	Missoula County-Mullan Rd	RSID	8/2/2004	$133,830
	East Helena	Revenue	9/21/2004	$326,131
	Missoula WWTP	Revenue	9/14/2004	$644,061
	Kalispell	Revenue	9/2/2004	$1,049,068
	Great Falls	Revenue	9/14/2004	$414,291
	Ennis	Revenue	9/14/2004	$151,985
	Lewis & Clark County Landfill	Revenue	9/14/2004	$1,000,000
	Disbursed Amount			$6,130,213

Transfer I Authority	$2,559,810	(33% of 2000 Grant)
Transfer II Authority	$2,570,403	(33% of 2001 Grant)
Transfer III Authority	$1,000,000	(33% of 2002 Grant)
	$6,130,213	
Disbursed in FY03		
Disbursed in FY04	$2,559,810	
Disbursed in FY05	$3,570,403	
	$6,130,213	
Transfer Balance Remaining	$0	

EXHIBIT 8A: HISTORY OF THE TRANSFER INFORMATION

Fiscal Year	Wastewater to Drinking Water	Drinking Water to Wastewater
1997	$4,892,646	$0
1998	$2,350,029	$0
1999	$1,539,811 *	$0
2000	$0	$0
2001	$0	$0
2002	$0	$0
2003	$0	$0
2004	$0	$2,559,810
2005	$0	$3,570,403
	$8,782,486	$6,130,213

*SFY 1999 Amount of $1,539,811 indicates the amount actually transferred not the authority amount listed on exhibit 7.

Note: All funds transferred between programs has been from recycled funds.

EXHIBIT 9: SUMMARY OF DRINKING WATER SRF FEDERAL DRAWS STATE FISCAL YEAR 2005

		Set-Aside Components				Total	State
Date	**Loans**	**Admin**	**Tech Asst**	**State Program**	**Local Asst**	**Drawn**	**Match**
1st Quarter							
07/01/04	22,927					22,927	5,732
07/21/04		10135	215	18711	1,671	30,732	
07/21/04	9,618					9,618	2,404
07/26/04	8,072					8,072	2,018
07/27/04	18,458					18,458	4,615
07/29/04		159		1,137	59,966	61,262	
07/30/04	3,234					3,234	809
08/27/04		1,586	(294)	60,498		61,790	
08/30/04	52,322					52,322	13,080
09/07/04			29,427	9,593		39,020	
09/09/04	11,791					11,791	2,948
09/16/04	2,368					2,368	592
09/30/04		7,676	159	35,293	28,990	72,118	
1st Quarter Draws	**$ 128,790**	**$ 19,556**	**$ 29,507**	**$ 125,232**	**$ 90,627**	**$ 393,712**	**$ 32,198**

Exhibit 9 Continued:

Date	Loans	Set-Aside Components				Total Drawn	State Match
		Admin	Tech Asst	State Program	Local Asst		
2nd Quarter							
10/04/04	3,929					3,929	982
10/05/04	580					580	145
10/12/04		175		1,438	3,562	5,175	
10/15/04	3,415					3,415	854
10/27/04	1,729,105					1,729,105	-
10/28/04	1,346					1,346	336
10/29/04		42,447	210	62,691	13,179	118,527	
11/03/04	34,468					34,468	8,617
11/08/04	7,512					7,512	1,878
11/18/04	8,168					8,168	2,042
11/22/04		16,628	107	32,522	6,516	55,773	
11/29/04	139,856					139,856	34,965
12/06/04			143	2,165		2,308	
12/08/04	12,149					12,149	3,037
12/10/04	16,000					16,000	4,000
12/13/04	9,648					9,648	2,412
12/30/04	60,250					60,250	15,062
2nd Quarter Draws	**$ 2,026,426**	**$ 59,250**	**$ 460**	**$ 98,816**	**$ 23,257**	**$ 2,208,209**	**$ 74,330**

Exhibit 9 Continued:

Date	Loans	Set-Aside Components				Total Drawn	State Match
		Admin	Tech Asst	State Program	Local Asst		
3rd Quarter							
01/06/05		56,891	22304	49,350	5,378	133,923	
01/10/05	(8)			8		-	
01/25/05	5,490					5,490	1,372
02/07/05	101,711				26,500	128,211	25,428
02/15/05	6,565					6,565	1,641
02/16/05			18406	58,866		77,272	
02/22/05		29,345		11,851	4,946	46,142	
02/23/05	6,047					6,047	1,512
02/25/05	4,454					4,454	1,113
03/03/05					7,885	7,885	
03/09/05					5,000	5,000	
03/11/05	6,975					6,975	1,744
03/14/05	125,614					125,614	31,404
03/16/05		57,269		13,018	3,546	73,833	
03/22/05	124,747					124,747	31,188
03/31/05					2,000	2,000	
3rd Quarter Draws	**$ 381,595**	**$ 143,505**	**$ 40,710**	**$ 133,093**	**$ 55,255**	**$ 754,158**	**$ 95,402**

Exhibit 9 Continued:

Date	Loans	Set-Aside Components				Total Drawn	State Match
		Admin	Tech Asst	State Program	Local Asst		
4th Quarter							
04/07/05	84,647					84,647	21,162
04/11/05	10,288					10,288	2,572
04/15/05	70,854					70,854	17,713
04/21/05	7,729					7,729	1,932
04/25/05	42,718					42,718	10,680
04/27/05					4,208	4,208	
05/03/05	51,390					51,390	12,848
05/05/05	76,400	50,863		48,358	6,059	181,680	19,100
05/12/05		19,520		81,408	11,643	112,571	
05/19/05	172,863	150		2,650	20	175,683	43,216
05/27/05			18,413	3,055	7,000	28,468	
06/03/05		13,800	3,050	600	3,665	21,115	
06/08/05		17,803		50,000	25,672	93,475	
06/13/05	48,991					48,991	12,247
06/14/05	267,565					267,565	66,891
06/15/05	123,444		40,000	22,775		186,219	30,861
06/22/05		17,625		37,438	3,055	58,118	
4th Quarter Draws	**$ 956,889**	**$ 119,761**	**$ 61,463**	**$ 246,284**	**$ 61,322**	**$ 1,445,719**	**$ 239,222**
Total FY05 Draws	**$ 3,493,700**	**$ 342,072**	**$ 132,140**	**$ 603,425**	**$ 230,461**	**$ 4,801,798**	**$ 441,152**

EXHIBIT 10: DRINKING WATER STATE REVOLVING FUND SUMMARY OF DRAWS

STATE FISCAL YEAR 2005

Budget v. Draw by Category

Program Name: FS998850 - 97	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	593,048	593,048	-	-
Technical Assistance	296,524	296,524	-	-
State Programs				
Public Water Supply Administration	120,000	120,000	-	-
Source Water Protection/Database	100,000	100,000	-	-
Capacity Development	50,000	50,000	-	-
Operator Certification	55,000	55,000	-	-
Subtotal	*325,000*	*325,000*	-	-
Local Assistance	1,482,620	1,276,334	206,286	-
Loans	12,129,008	12,129,008	-	-
Total	**14,826,200**	**14,619,914**	**206,286**	**-**

Program Name: FS998850 - 98	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	284,852	284,852	-	-
Technical Assistance	142,426	142,426	-	-
State Programs				
Public Water Supply Administration	155,470	155,470	-	-
Source Water Protection/Database	105,000	105,000	-	-
Capacity Development	10,000	10,000	-	-
Operator Certification	70,000	70,000	-	-
Subtotal	*340,470*	*340,470*	-	-
Loans	6,353,552	6,353,552	-	-
Total	**7,121,300**	**7,121,300**	**-**	**-**

Exhibit 10 Continued

Program Name: FS998850 - 99	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	298,552	298,552	-	-
Technical Assistance	149,276	149,133	143	-
State Programs				
Public Water Supply Administration	154,800	154,800	-	-
Source Water Protection/Database	100,000	97,835	2,165	-
Capacity Development	10,000	10,000	-	-
Operator Certification	70,000	70,000	-	-
Subtotal	*334,800*	*332,635*	*2,165*	-
Loans	6,681,172	6,681,172	-	-
Total	**7,463,800**	**7,461,492**	**2,308**	**-**

Program Name: FS998850 - 00	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	310,280	310,280	-	-
State Programs				
Public Water Supply Administration	155,000	155,000	-	-
Source Water Protection/Database	75,000	73,390	1,610	-
Capacity Development	50,000	50,000	-	-
Operator Certification	70,000	70,000	-	-
Subtotal	*350,000*	*348,390*	*1,610*	-
Loans	7,096,720	7,096,720	-	-
Total	**7,757,000**	**7,755,390**	**1,610**	**-**

Exhibit 10 Continued

Program Name: FS998850 - 01	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	311,564	311,564	-	-
State Programs				
Source Water Protection/Database	75,000	75,000	-	-
Capacity Development	50,000	49,992	8	-
Subtotal	*125,000*	*124,992*	*8*	-
Loans	7,352,536	6,111,625	1,240,911	-
Total	**7,789,100**	**6,548,181**	**1,240,919**	**-**

Program Name: FS998850 - 02	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	322,100	322,100	-	-
State Programs				
Public Water Supply Administration	395,000	394,822	178	-
Capacity Development	50,000	48,174	1,826	-
Operator Certification	90,000	90,000	-	-
Subtotal	*535,000*	*532,996*	*2,004*	-
Loans	7,195,400	-	2,252,797	4,942,603
Total	**8,052,500**	**855,096**	**2,254,801**	**4,942,603**

Exhibit 10 Continued

Program Name: FS998850 - 03	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	320,164	287,841	32,323	-
Technical Assistance	125,000	29,826	91,997	3,177
State Programs				
Source Water Protection/Database	100,000	29,165	70,835	-
Public Water Supply Administration	395,000	25,000	352,581	17,419
Operator Certification	90,000	37,386	52,614	-
Subtotal	*585,000*	*91,551*	*476,030*	*17,419*
Loans	6,973,900	-	-	6,973,900
Total	**8,004,064**	**409,218**	**600,350**	**6,994,496**

Program Name: FS998850 - 04	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	332,124	-	309,749	22,375
Technical Assistance	135,000	-	40,000	95,000
State Programs				
Source Water Protection/Database	100,000	-	52,146	47,854
Capacity Development	82,000	-	46,276	35,724
Public Water Supply Administration	160,000	-	-	160,000
Operator Certification	90,000	-	23,178	66,822
Subtotal	*432,000*	*-*	*121,600*	*310,400*
Local Assistance	40,000		24,175	15,825
Total	**939,124**	**-**	**495,524**	**443,600**

Exhibit 10 Continued

Program Name: Total All Grants	Budget	Previous Draws	SFY 05 Draws	Balance 6/30/2005
Administration	2,772,684	2,408,237	342,072	22,375
Technical Assistance	848,226	617,909	132,140	98,177
State Programs				
Public Water Supply Administration	1,535,270	1,005,092	352,759	177,419
Source Water Protection/Database	655,000	480,390	126,756	47,854
Capacity Development	302,000	218,166	48,110	35,724
Operator Certification	535,000	392,386	75,792	66,822
Subtotal	*3,027,270*	*2,096,034*	*603,417*	*327,819*
Local Assistance	1,522,620	1,276,334	230,461	15,825
Loans	53,782,288	38,372,077	3,493,708	11,916,503
Total	**61,953,088**	**44,770,591**	**4,801,798**	**12,380,699**

EXHIBIT 11: DWSRF LOANS - MBE/WBE FOR CONTRACTS AWARDED DURING SFY05

FFY Qtr/Yr	SFY Qtr/Yr	Borrower	Loan No.	Bid Amount	Loan Amount	DBE Type	DBE Amount	DBE Goal Percent #
04/04	01/05	Great Falls	WRF01-024	$363,345	*$3,000,000	WBE	$2000	0.76%
01/05	02/05	-	-	-	-	-	-	-
02/05	03/05	-	-	-	-	-	-	-
03/05	04/05	Livingston	WRF06-74 WRF06-75	$1,063,998		WBE	$5050	0.47%
		Miles City	(not closed)	$939,000	**$1,050,000 (not closed)	WBE	$17,500	1.86%
		Power–Teton WSD	(not closed)	$726,470	*$375,000 (not closed)	WBE	$22,284	3.07%

- * The project was built in phases, the last phase was constructed in FY 2005.
- ** Loan will close in FY 2006. Construction Contracts awarded in SFY 2005.